

P-426, 405, 421, 430, 520/CP-91-821 ORDER APPROVING A LOWER-PRICED
ALTERNATIVE AND ADOPTING RATES FOR POLLING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm
Tom Burton
Marshall Johnson
Cynthia A. Kitlinski
Dee Knaak

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of a Petition for Extended Area
Service From the Webster Exchange to
Minneapolis/St. Paul Metropolitan Calling
Area

ISSUE DATE: December 7, 1994

DOCKET NO. P-426, 405, 421, 430, 520/CP-
91-821

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PROCEDURAL HISTORY

On October 21, 1991, subscribers in the Webster exchange of Scott-Rice Telephone Company (Scott-Rice) filed a petition for extended area service (EAS) to the Minneapolis/St. Paul Metropolitan Calling Area (MCA).¹ Scott-Rice serves 608 subscribers in the Webster exchange. The MCA is served by US West Communications, Inc. (USWC), United Telephone System-Minnesota (United), GTE Minnesota (GTE), Vista Telephone Company of Minnesota (Vista), and Scott-Rice Telephone Company (Scott-Rice).

On October 29, 1991, the Minnesota Department of Public Service (the Department) requested Scott-Rice to file a traffic study for the Webster-MCA route.

On December 24, 1991, Scott-Rice filed the study.

On December 31, 1991, the Department recommended that the Commission find that the Webster petition meets the adjacency and traffic criteria of the EAS law. The Department further recommended that the Commission order the involved telephone companies to file revenue requirement studies and proposed rates.

During 1992, the Commission, in conjunction with industry representatives and the Department, developed a traffic study methodology acceptable to all parties.

On July 26, 1993, the Commission issued an Order requiring the affected telephone companies in this matter to file cost studies and proposed rates.

During November 1993, the companies filed the required information.

On February 17, 1994, the Commission issued an Order requiring the companies to refile cost studies and proposed rates based on a stimulation factor of 4.

During March and April 1994, the revised cost studies and rates were filed.

¹ Following the filing of the Webster petition, the MCA has continued to expand. The New Prague exchange was added to the MCA in July 1992 and is served by Eckles Telephone Company (Eckles). The Zimmerman and Monticello exchanges, served by Sherburne and Bridge Water Telephone companies, respectively, will be added to the MCA on February 1, 1995. Other exchanges in the process of being added to the MCA are served by companies already listed.

On March 22, 1994, Scott-Rice filed its lower-priced alternative. Scott-Rice proposed that two-party service be its alternative.

On May 20, 1994, the Department submitted its report and recommendation.

On June 9, 1994, Scott-Rice filed comments stating that its lower-priced alternative would be changed in response to the Department's report and filed its revised lower-priced alternative on July 15, 1994.

On October 26, 1994, the Department commented on Scott-Rice's proposed lower priced alternative.

On October 28, 1994, Olsen, Thielen, Inc., on behalf of Scott-Rice, verbally informed Commission staff that Scott-Rice would not be filing response comments to the Department comments on the alternative.

No other party has filed comments on the Department's report or on Scott-Rice's alternative.

On November 29, 1994, the matter came before the Commission.

FINDINGS AND CONCLUSIONS

In this Order, the Commission approves Scott-Rice's proposed lower-priced alternative and sets EAS rates for the Webster exchange. Information regarding both the Webster EAS rates and the lower-priced alternative will appear on the ballots used in polling Webster subscribers to ascertain the level of subscriber support for the proposed EAS between Webster and the MCA.

A. Lower-Priced Alternative

Scott-Rice initially proposed its standard two-party service as its lower-priced alternative. The Department objected to two-party service as the alternative because it would require subscribers to accept lower service quality as the alternative to paying higher EAS additives. The Department also noted that the Commission is investigating the elimination of two-party service.

In response, Scott-Rice acknowledged that a proposal for two-party service may no longer be appropriate and made another proposal: an Optional Extended Measured Service (OEMS) plan. The proposed lower-priced alternative rate additives are:

Residence	\$10.00
Business	15.00

plus

a usage charge of \$0.10 per minute for both customer classes

Scott-Rice based the per minute charge on the average cost per toll minute of use for metro calling of \$0.095. Scott-Rice also based its "take rate" on residence customers with \$5.00 or less of calling to the metro, and business customers with \$15.00 or less to the metro. The Department did not recommend any changes in the lower-priced alternative.

The Commission finds that the Company's revised lower-priced alternative proposal, including the proposed rates, is reasonable and will approve it.

B. Webster's EAS Rates

The Department stated and the Commission agrees that the cost studies and proposed rates filed by US West, United, GTE, Eckles, Vista, and Scott-Rice all comply with the Commission's previous decisions in EAS cases. However, two adjustments are warranted and one warrants discussion, as follows:

1. Adjustment Due to Lower-Priced Alternative

The Department recommended that the Commission revise the flat rate EAS additives proposed by Scott-Rice because Scott-Rice did not stimulate the usage element of the lower-priced alternative.

Stimulating the usage element would attribute more of the revenue requirement to the lower-priced alternative leaving less of the requirement to be paid by the flat rate subscribers. The Department recommended the usage be stimulated by 3.6 times, the stimulation rate approved by the Commission in the Lindstrom and Delano to Metro EAS cases.

The Department noted that a factor of 3.6 times is justified because the price for a 5-minute daytime call to the Metro (in the 21-30 mileage band) would be only \$0.50, as compared to US West's current rate of \$0.81 for the same call.

The Commission finds that it is appropriate to adjust Webster's flat rate EAS additive to take into account this factor (stimulated usage in the lower-priced alternative). Accordingly, the Commission will adopt rates that reflect that adjustment.

2. Adjustment Due to Addition of New Exchanges to the MCA

Since the filing of those cost studies and proposed rates, however, the Zimmerman and Monticello exchanges have been added to the MCA and will commence EAS operations February 1, 1995.

Telephone companies affected by the provision of Webster-MCA EAS (such as Sherburne County Rural Telephone Company which serves the newly-added Zimmerman and Bridge Water Telephone Company which serves the newly-added Monticello exchange) are

entitled to recover the cost of providing EAS through the rates. The question is to what extent the cost studies and proposed rates for Webster should be adjusted to reflect the additional costs related to the addition of these two exchanges: Zimmerman and Monticello.

Regarding the addition of Zimmerman, the Department has calculated that monthly EAS rate additives for 1-party residential and 1-party business customers in the Webster exchange would have to be increased 1 cent (\$0.01) to include the Zimmerman exchange. The Department based its calculations on information request responses from Sherburne Rural Telephone.² The Commission has reviewed the Department's calculations and finds that they are accurate.

As to the Monticello exchange, the Commission finds that the distance between Webster and Monticello suggests that the costs experienced by Monticello due to the provision of EAS to Webster are likely to be minimal. In these circumstances, the Commission will neither adjust Webster's EAS rates further nor require the telephone company serving Monticello (Bridge Water) to file a cost study.

3. Impact of Adopting the Revised Lower-Priced Alternative

Scott-Rice contended that adoption of the revised lower-cost alternative (measured service) would require an upward adjustment of the flat rate EAS additives to the following levels:

<u>Service Class</u>	<u>Metro EAS Additive</u>
1-party Residence	\$26.51
2-party Residence	18.15
1-party Business	39.46
Semi-Public Paystation	53.71

The increase would be required, according to Scott-Rice, because based on current calling patterns more subscribers would choose the revised alternative. Scott-Rice reasoned that when more subscribers choose the lower-priced alternative there will be fewer remaining flat rate subscribers left to share the costs of the flat rate service and so the rates for these customers would have to be raised to generate the same level of revenue.

The Department disputed that adopting the revised lower-priced alternative (measured service) would have a negative impact upon revenues and recommended that the Commission reject the increases in the EAS flat rate proposed by Scott-Rice. According to the Department's analysis, Scott-Rice failed to stimulate the usage element of the lower-priced alternative in making its calculations.

Stimulating the usage element of the lower-priced alternative would attribute more of the revenue requirement to the lower-priced alternative leaving less of the requirement to be paid by the flat rate subscribers. The Department recommended the usage be stimulated by 3.6 times, the stimulation rate approved by the Commission in the Lindstrom and Delano to Metro EAS cases. In addition to citing precedent, the Department argued that a factor of 3.6 times is justified in this case because the price for a 5-minute daytime call to the Metro (in the 21-30 mileage band) would be only \$0.50, as compared to US West's current rate of \$0.81 for the same call.

The Commission finds that the Department's analysis of the dynamics affecting the company's expected revenue from its EAS and lower-priced alternative subscribers is persuasive.

² The Department also stated that no increases in Zimmerman were appropriate because 75 percent of the costs were to be charged against the Webster exchange. The remaining 25 percent charged to Zimmerman was so small that no increase is needed.

4. Commission Action Regarding EAS Rates

In sum, the Commission must take a practical approach to this kind of issue. The rates proposed by the parties, properly adjusted to reflect the costs to be experienced due to the addition of the Zimmerman exchange, will be approved and polling will proceed. As the Commission has indicated previously, the EAS statute does not require that the Commission refigure cost studies and EAS rates *ad infinitum* thereby delaying indefinitely the processing of EAS petitions.

ORDER

1. The Commission hereby adopts flat rate EAS additives for the Webster exchange³ as follows:

<u>Service Class</u>	<u>Metro EAS Additive</u>
1-party Residence	\$24.05
2-party Residence	16.46
1-party Business	35.79
Semi-Public Paystation	48.71

2. The revised lower-priced alternative proposed by Scott-Rice is approved as follows:

- the Residence additive is \$10.00
- the Business additive is \$15.00

In addition, there will be a charge of \$0.10 per minute for calls to the metro area.

3. The cost studies and proposed rates filed by the companies already serving the metro calling area are accepted. The specific rate additives adopted for these companies in this matter are attached, see Attachment A.
4. Scott-Rice shall cooperate fully with Commission Staff and the Commission's contractor to conduct a poll of all access lines in the Webster exchange. As part of such cooperation, Scott-Rice shall
 - a. provide a useable, deliverable address for each access line in a format and according to a timeframe established by Commission Staff,
 - b. provide proof of the accuracy of the customer list as requested by Commission Staff, and
 - c. provide a list of Webster subscribers as of the date specified by Commission staff for polling the Webster exchange.
5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

³ The rates for 1-party Residential and 1-party Business include the Department's recommended \$0.01 increase to take into account the addition of the Zimmerman exchange into the MCA.

Attachment A - Rate Increases
Existing Metro Calling Area Subscribers

Webster to Metro EAS
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The following rates for existing metro calling area subscribers are based on the cost studies filed by Eckles, United, Vista, Scott-Rice, USWC and GTE in March and April 1994.

Eckles

Res. Access - Town	\$0.138
Res. Access - Rural	0.168
Res. Multiparty - Rural	0.126
Bus. Access - Town	0.276
Bus. Access - Rural	0.300
Key - Town	0.328
Key - Rural	0.353
PBX	0.444
Direct Dial Trunks	0.496
Payphones	0.475

United

(Chaska)	
1-party Res.	\$0.003
1-party Bus.	0.006
Semi-Public	0.006
Trunk	0.008
School	0.006

(Cologne)	
1-party Res.	\$0.002
1-party Bus.	0.004
Semi-Public	0.004
Trunk	0.005
School	0.004

(Hastings)	
1-party Res.	\$0.006
1-party Bus.	0.012
Semi-Public	0.012
Trunk	0.015
School	0.012

(Osseo)	
1-party Res.	\$0.001
1-party Bus.	0.002
Semi-Public	0.002
Trunk	0.003
School	0.002

(Rogers)	
1-party Res.	\$0.003

1-party Bus.	0.006
Semi-Public	0.006
Trunk	0.008
School	0.006

(St. Michael)	
1-party Res.	\$0.002
1-party Bus.	0.004
Semi-Public	0.004
Trunk	0.005
School	0.004

(Victoria)	
1-party Res.	\$0.002
1-party Bus.	0.004
Semi-Public	0.004
Trunk	0.005
School	0.004

(Waconia)	
1-party Res.	\$0.001
1-party Bus.	0.002
Semi-Public	0.002
Trunk	0.003
School	0.002

Vista

(Apple Valley, Burnsville, Farmington, Jordan, Lakeville, Rosemount)

1-Party Res.	\$0.021
2-Party Res.	0.019
1-Party Bus.	0.060
Key Trunk	0.069
PBX Trunk	0.091
Semi-Public	0.075
Customer-Owned Coin	0.075
1-Party School	0.045
Key Trunk - School	0.052
PBX Trunk - School	0.068

Staff Note: Vista's Belle Plaine exchange was added to the MCA at MCA rates in Docket P-405/GR-93-2, Vista's recent rate case.

Scott Rice

Prior LakeNew Market

1-party Residence	\$0.020 all rates \$0.00
2-party Residence	0.016
1-party Business	0.050 New Market
	already Semi-Public
	Paystation 0.073 has
	EAS to Webster

Customer-Owned Paystation	n/a
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GTE

(Mound, Maple Plain, Scandia, Wyoming, St. Bonifacius)

Residential	\$0.002
Business	0.004

USWC

1-party Res.	\$0.001
2-party Res.	0.001
2-party Res. (Message)	0.000 - no increase
1-party Bus.	0.003
Trunk	0.003
1-party Bus. (Message)	0.002
Semi-Public	0.003